



Transmission Business Line (TBL)

McNARY-JOHN DAY 500-KILOVOLT TRANSMISSION LINE PROJECT

FREQUENTLY ASKED QUESTIONS

UPDATED VERSION DATED JULY 23, 2004

Background

TBL is proposing to construct the \$167 million project McNary-John Day 500-kilovolt transmission line through up-front financing by interested parties in exchange for transmission credits. TBL is taking this approach consistent with its policy on infrastructure proposals in response to market needs. This line is not needed for system reliability.

A notice announcing the July 1 to 30 "open season" is posted on the TBL web site at www.transmission.bpa.gov under "News and Events."

FAQ (questions are in bold):

Q: What is an "Open Season?"

A: An open season is an approach to securing an adequate level of capacity subscriptions to support construction of a major transmission infrastructure project or projects when that project is in response to market needs. All service requests received during the open season window will be aggregated to determine whether sufficient demand exists to support the considerable investment required. Requests to participate will be considered in date order with priority given to the earliest submittal date(s).

Q: You have indicated that the open season is designed for eligible customers requesting transmission service over capacity that primarily crosses the West of McNary (WOM) and/or West of Slatt (WOS) transmission flowgates. Why are you targeting this path and not seeking requests for service anywhere on the system?

A: We have undertaken this special open season process for several reasons unique to this constrained transmission path:

1. TBL has several transmission requests in the current queue that only require increased capacity on the WOM and WOS path as a prerequisite to award. The open season allows TBL to make simultaneous offers of service with the potential for the financing obligation of any individual customer to be reduced. This approach also facilitates the return of customers that were previously in the queue and were removed after they previously declined to participate in financing the McNary-John Day project.
2. With the environmental impact study (EIS) for the project already completed, TBL can make binding offers of transmission service without any contingency associated with the completion of NEPA work. Binding offers would be made only if TBL obtains sufficient subscription for the project.
3. There are requests in the transmission queue that require upgrades to other flowgates in addition to requiring ATC on WOM and WOS that is not currently available. If TBL successfully subscribes and constructs the McNary-John Day project it will be the first step in addressing system-wide constraints.

Q: Will this process disadvantage those parties that are already in the transmission request queue and that currently hold a senior position in the queue?

A: No, we will ensure that no existing party in the queue is disadvantaged. Existing customers in the queue should actually be advantaged because the greater the subscription achieved, the more we can reduce the up-front financial obligation for existing customers in the queue. If the capacity is oversubscribed, capacity will be allocated according to queue position. (This is with respect to the current BPA Transmission Queue. Any requests that are not currently in the queue submit an application during the open season will be entered at the bottom of BPA's transmission queue). In the event that there are more requests for capacity than capacity available, TBL will offer participation according to queue order. Therefore, TBL recommends that interested parties submit their transmission application at the earliest opportunity.

Q: For this process, what are the differences from the normal transmission application process?

A: For the open season, TBL is trying to maintain consistency with its existing business practice regarding transmission requests; however, due to the unique nature of the open season there will be one difference:

- The application deposit for any new transmission request from July 1 to July 30 will be suspended for the express purpose of evaluating potential demand. Any party wanting to continue to participate in the project or who desires to remain in the queue will be required to submit the deferred application deposit after July 30 (most likely in September 2004).

Q: What happens to requests that are eligible to participate in McNary-John Day but do not choose to participate?

A: Any request in the queue that is determined able to participate in the project yet declines to participate will be removed from the queue consistent with current queue management practice.

Q: What are the procedures for submitting a request during the open season and what are the costs/risks?

A: The procedures for submitting a request will remain the same as TBL's current practice and outlined in the OATT Section 17.2. With suspension of the application deposit, TBL has attempted to remove any financial costs or risks associated with indicating interest in transmission capacity created by this project during this initial expression of interest.

Q: Is TBL willing to finance some portion of the McNary-John Day project?

A: If TBL receives sufficient customer participation to fund the project, then TBL may choose to participate to the extent of the required transmission reliability margin created when the project is energized.

Q: Will PBL be participating in the project? To what degree?

A: PBL currently has 300 MW of requests in the transmission queue that would qualify for participation in funding this project, not counting any additional requests associated with this open season. PBL's pro-rata financial obligation will depend on the total level of customer participation.

Q: What interest rate will TBL pay on credit balances in the prepayment accounts?

- A: TBL will pay the FERC variable rate as specified in **18CFR35.19a**. This rate is adjusted quarterly and is based on a rolling average of the prime rate.
- Q: How is TBL calculating each requestors share of the project?**
- A: While a pricing methodology based on total capacity request was shared at the public meeting, TBL is taking feedback from interested parties on alternative methodologies. TBL's final calculation will consider the total level of interest shown in the project while maintaining the basic principles to optimize the opportunity for success of this project.
- Q: Could TBL potentially oversell the project?**
- A: There is the potential for interested customers and their requests to exceed available ATC added by this project, but TBL will not oversell ATC on the WOM or WOS paths. If there is more total capacity from eligible applicants than ATC, then TBL will revert to queue position in offers of participation. This is consistent with existing queue management policy and FERC requirements.
- Q: What is the Free Rider policy TBL would adopt for this and other market-driven projects?**
- A: This policy is currently being developed and will be instituted prior to making offers. It is an objective of TBL to remove any incentive for participants to defer a commitment to capacity under this process in anticipation of a reduction of the prepayment requirement at a later time.
- Q: How would transmission credits be based?**
- A: Transmission credits will be based on the amount of long-term firm transmission service requested over this project, will be applied once the project is energized and will be provided in exchange for financing of this project. The credits will be based on the actual level of prepayments plus accrued interest. Credits will be applied to offset actual charges under the base transmission rate (FPT04 or NT-04) when service commences under the Transmission Service Agreement (TSA).
- Q: If a customer impacts multiple flowgates but still wants to participate, would TBL consider this?**
- A: There is risk associated with such a decision. If a customer impacts other flowgates, there would be a need for major additions or upgrades to the system to alleviate these additional constraints, other than McNary-John Day. Until these other constraints are eliminated, TBL would be unable to offer a transmission service agreement for the customers participation. However, if the customer understands this risk and still wishes to participate despite TBL's inability to offer a TSA, TBL is willing to accept prepayments from that customer. (Participating in McNary-John Day open season does not give applicants first rights to other constrained paths when ATC becomes available on the constrained paths. They will be treated on the other paths based on their original queue position).
- Q: How will credits be provided to Network Transmission customers?**
- A: TBL is currently evaluating alternate approaches to calculating the portion of an NT customer bill that is eligible for credits. This issue is also the subject of a clarification request pending in the rehearing of FERC Order 2003-a. We intend to articulate a policy position in early August. Customer proposals are welcome and will be duly considered.

Q: What happens to the project if there isn't sufficient interest in participating in funding during the open season? Will BPA do a second round of offers?

A: TBL is making every effort to ensure that the open season process leads to an adequate level of subscription that supports proceeding with the McNary-John Day project or that otherwise enables the TBL to offer of firm capacity to participants. Although we will not rule out a second round of offers, it is our expectation that the current process will be successful. If it is not successful, lack of interest will likely indicate insufficient market demand for the transmission capacity that the McNary-John Day project will create.

Q: What is BPA's policy on allowing participants to redirect transmission usage and how then would the credits be applied?

A: Transmission capacity holders are always able to request and receive permission to redirect their firm capacity to alternate PORs and PODs. Such requests will be granted if sufficient ATC is available on the redirected path and no additional constrained paths are impacted. Transmission credits can only be used for transmission service for the POR/POD combination stated in the transmission service agreement (TSA) for this project/open season, and will follow the TSA if it is assigned to an alternate party using this same POR/POD combination. Redirects of the original transmission capacity under the TSA to alternate points of delivery are not eligible for credits. We are cognizant of customer wishes in this area and continue to examine the issue.

Q: If a customer agrees to participate and their project doesn't go forward, would we buy back their portion and offer to the next request in the queue?

A: TBL will not participate in a capacity broker role. However, TBL will assist the customer, to the extent possible, in identifying potential parties that would be interested in accepting a temporary or permanent assignment of capacity held by a customer who's project does not go forward.

Q: Does the de minimis rule apply to this process as they would under normal circumstances?

A: Yes, with the exception that, for all customers participating in the McNary-John Day open season, de minimis impacts to all flowgates other than WOM and/or WOS will not be decremented from either ATC or the dead-band bucket capacity for those flowgates.

Q: Will a template of the financial agreement be made available prior to offers being sent out?

A: We intend to provide a draft template by early August for consideration by requestors. Participants should understand, however, that some of the specific details may not be decided until such time as TBL tenders final executable offers.

Q: Can you explain why requests #568 (Columbia Energy Partners, 200 MW) and #583 (Plymouth, 306 MW) are included in the handout showing transmission requests meeting the pre-funding criteria? The Long Term Request Queue Worksheet shows each of these having an impact of greater than 10 MW over Cross Cascades South (18 MW and 25 MW impacts, respectively) for the '06 system topology ... and more in the '04 cases.

A: There exists sufficient ATC across Cross Cascades South to accommodate these requests.

Q: Can you explain why request #571 (Mirant, 15 MW) is included in the handout? It would appear that this request meets the de minimis criteria for all constrained paths?

A: The PUFs for each impact are too large to meet the second of the two de minimis criteria...

1. Impact to flowgate must be less than or equal to 10 MW AND
2. Impact to flowgate / total requested amount must be less than or equal to 0.10 to be considered de minimis.

Q: Can you explain why requests #442 (PacifiCorp Power Marketing, 100 MW) and 620-01 - 620-03 (PBL, 100 MW each) were not included in the handout as meeting the pre-funding criteria? I imagine that the requests from PBL did not make the list because the requests were only submitted recently (July 1). I'm not sure about the PPM request, however; it does appear to meet the pre-funding criteria.

A: Long-Term Request Queue (LTRQ) #442 has a requested termination date of 5/1/2006 while the earliest proposed completion date of McNary-John Day is Spring 2007 (the request will have expired before we could grant transmission, assuming the line gets built.) LTRQ #820-01, 820-02, 820-03 (I assume these are the requests you're referring to in your question) were received after the handouts were prepared.